FARM MANAGEMENT SUGGESTIONS

for Higher Net Income

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I. Accurate Farm Records -

A. Basis for Farm Decisions: There is no substitute in farming today for good farm records. Time spent keeping records that can be analyzed is worth \$5 to \$20 per hour to the farmer.

With the increased investment and the rapid technology changes in farming, record keeping can be a very profitable activity as an important basis for making farm decisions. Other bases for farm decisions good or bad are:

1. Past experiences.
2. Imitation and emotion.
3. Sought for information--here is where your state and national experiment stations through your state college, County Extension Service, Vo-Ag. Departments, etc. can be of valuable assistance either as a source or a non-biased check on information received elsewhere.
4. Personal preference.
5. Available resources--finances.
6. Your goals and objectives.
7. Impulse, hunch, intuition. We also make a decision when we take no action. Sometimes this can be one of the most expensive decisions.

B. Ways Good Farm Records Can Help You:

1. Help detect weak and strong enterprises and inefficiencies within enterprises.
2. Needed for preparing credit applications. Credit is an important farm tool, if used wisely.
3. Records help save money at income tax filing time.

   (a) Reminder of all Depreciation Expenses on buildings, equipment, and purchased livestock.
   (b) Reminder of 7% Investment Credit deduction on tangible property purchased after Dec. 31, 1961 and has life of 8 years plus.
   (c) Substantiates facts on receipts and expenses.
   (d) Makes it possible to take full advantage of capital gain tax on sale of raised and purchased brood stock, machinery, etc.

4. Help you figure your actual return on your investment and your real labor and management income. Changes in inventories must be considered to do the above. Be sure to calculate your actual net worth--this is a must in the use of credit.

C. Improve Your Record Keeping by:

1. Making accurate inventories at least once each year.
2. Pay all bills by check.
3. Insist on monthly itemized statements from your supplies.
4. Deposit all receipts in the checking account and record the source of income on the deposit slips. (Be sure to ask for a carbon copy of the deposit slip.)
5. Make entries in The Farm Account Book on a regular schedule using deposit slips and paid itemized bills.

Farm record keeping can be very interesting once you develop a system and realize the extreme importance of good records to improved net income.

II. Figure Your Annual Costs on equipment, machinery and buildings before you buy.

Equipment and machinery annual costs generally figure 18% to 20% of original price, while buildings and storage facility will figure 9% to 12% depending on the length of life and repair costs.

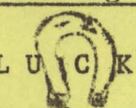
Example: $8,000 harvesting machine. You would multiply the percentages listed below times the cost of any piece of machinery regardless of the amount.

Annual Fixed Cost of Owning an $8,000 Machine

Costs to Consider	Per Cent	Annual Costs
Depreciation	10%	$800
Interest	3%	240*(½ int. rate or full rate x ½ price)
Repair	3.5%	280
Taxes	1.0%	80
Insurance	.2%	16
Housing	.7%	56
Approximate Annual Cost	18%	$1472

How many acres should a man have to harvest before he could logically own this price machine? Divide your acres that you will be using a piece of machinery on by the annual costs. This will give you the fixed cost per acre. Then add $1.50 to $2.00 per acre to cover the variable costs (fuel, oil, labor, etc.). The fixed costs plus variable costs then should be compared to the available custom hire rates. Sometimes we have a terrific cost per acre by owning some types of machinery if we do not have enough acres to intensify the use of it.

Your annual costs of new buildings and storage facilities are figured the same only use 9% to 12% depending length of life, etc.

III. <u>The Difference Between High and Low Farm Incomes</u> on similar size units is more than  L U C K Differences depend on:

A. <u>Yields Per Acre</u>. In many cases the last place we want to cut costs is on lime, fertilizer, drainage, and good seed.

B. <u>Yields Per Animal</u>. Performance records is a good measure. Improved feeding practices may be a possibility. Timeliness is one of the keys in both livestock and crop production.

C. <u>Volume</u>. Once we improve our unit efficiency, then we must increase volume, generally to stay competitive. However, we should strive to get better before we get bigger.

D. <u>Intensity of the Use of Our (Fixed) Overhead Costs</u>. Here is one of the big differences between profit or loss. What is the annual cost per acre or per hour of use for a possible new purchase of equipment, machinery, buildings, etc.

E. <u>Prevention of Waste</u> in areas of harvesting, storage, feeding, tillage, fixed costs, etc.

F. <u>Sales Resistance</u>. Take time to analyze - don't be forced to decide. Buy what you need and need what you buy. Test your buying.

G. Last but not least, <u>Time spent in record keeping, planning and analyzing</u> is very important and will pay big dividends.

IV. Farm Planning is deciding how to run the farm business in order to make the most effective use of the resources--land, labor, management, and capital--available to the business at any given time, in other words, highest farm net income.

To be of any use, planning must be followed by action.

A plan can be a disadvantage instead of a help if it is not continually being modified to meet new situations.